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# ECONOMIC ASPECTS OF DEFENCE

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These notes on Economic Aspects of Defence have been compiled during the Parliamentary recess, and are presented in the hope that they may prove of value to readers in the circumstances of the present time.

I have reprinted as an Appendix a small brochure entitled *The Price of Peace* which was written and privately circulated immediately after the Munich agreement.

H. M.

*January 1939.*

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## CHAPTER I

### THE SCOPE OF THE PROBLEM

THE nation is united in a determination to build up its armed strength to a level comparable with any force which could be marshalled by our potential enemies. What it does not yet fully realise is the formidable scope and character of the task. The armed might of totalitarian power is buttressed by a form of economic organisation which is disciplined and responsive to the will of dictatorship. The capital resources and the man-power of these states are already mobilised on a war footing. If our own defence is to be adequate and indomitable our power must be measured against that of any likely combination of forces which, in the pursuit of an aggressive policy, might be brought into conflict with us. We shall not achieve the kind of strength that is now necessary by any easy and casual process of rearmament. It is not enough merely to spend more money. The highest degree of economic efficiency is vitally essential. We are challenged to prove that freedom can be combined with efficiency and that Democracy has the will and the vigour to produce the results upon which its very existence now depends.

In modern conditions the strength of a nation is not determined only by the number of soldiers, guns, battleships, aeroplanes, etc. which, at any given moment, it possesses. It is equally important that its material and human resources should be so organised

and utilised as to enhance its power to go on producing the instruments of war to replace wastage, and to guarantee the essentials of life to the people throughout a prolonged emergency. Military power is therefore conditioned by economic resources, and the efficiency with which they can be organised in productive effort. Military power is a product of economic power.

The economic power of a nation cannot be created overnight ; it must be built up gradually by the accumulation of materials and of capital, the construction of plant and equipment, and the acquisition of knowledge, skill and ingenuity by managers, technicians and workers. It is in the *active employment* of these resources that economic power can be maintained and increased. The storage of materials and plant in idleness would be only a relatively small contribution to the nation's preparedness for an emergency. The machines should be kept running to avoid deterioration, the workers should be kept employed so that their skill is fully maintained ; the maximising of output is largely a matter of organisation and management ; and these can be perfected only in the course of active operation.

The building up of economic power for war purposes is therefore spread over a period when the nations are at peace with one another. The war starts on the economic front, in the struggle for supplies that can be stored and in the building-up of the productive organisation internally. It would appear that the preliminary war on the economic front can be carried to even greater lengths to-day, and that a nation may seek to achieve, as a result of its foreign trade policy, first the economic subjugation of areas

containing resources it needs, and then, as a result of its economic stranglehold, political domination through which it can make other nations its enforced allies in the event of war. For these reasons the economic side of a defence policy is not less important than the technical side.

There are really five main aspects of defence preparations which, in the circumstances of our time, must be considered. They are :

(1) Overseas trade, and our general economic relations with other countries.

(2) The productive efficiency of our economic system as a whole.

(3) The accumulation of supplies of storable food-stuffs and raw material.

(4) The technical questions regarding the kind of war material to be produced, the location of the factories producing it, and the organisation of reserve productive capacity.

(5) The recruitment and training of personnel for the defence organisations, civil as well as military.

The last item on the list, being related to the economics of defence only in so far as it diverts labour from other activities, will not be dealt with in this study. We shall confine our attention to the subject of economic organisation. It is necessary first of all, however, to pay some attention to the operations of the kind of economic system with which we are being brought into competition. By doing so we shall be able to form a more reliable opinion regarding the changes and improvements it has become essential for us to carry out.

We shall discover that drastic changes are required

in the economic organisation of this country if we are to achieve the full employment and rational disposition of our capital and labour resources. To attain greater economic efficiency we shall find it necessary to impose greater economic discipline, and this raises a question as to whether, and by what means, such efficiency can be reconciled with the freedom we desire to defend. National unity is an essential part of defensive strength. Our plans must therefore carry the approval of the mass of the people, and this will only be possible if we can find a satisfactory answer to the question as to how freedom and efficiency can be combined.

There is also another issue of equal importance. The economic preparations for war that are now being actively pursued by our potential enemies take the form of an intense economic nationalism. To preserve our own strength in the world-market conditions which these methods create, it becomes necessary for us to take action of a similar kind. Does it necessarily follow that the economic antagonism between nations must in this way be perpetuated and intensified, or is it possible for us to find a method which will serve our immediate need for economic defence but which is equally capable of being used for international economic cooperation?

In discussing these various aspects of our problem I shall include various quotations containing information drawn from different sources. What is being attempted here is not a full and exhaustive discussion but a survey which may prove useful by reason of the information it provides and by its brief indication of lines of policy which have been more fully discussed elsewhere.

## CHAPTER II

### GERMANY PREPARES

#### (1) ECONOMIC ORGANISATION

GERMANY is the nation most actively engaged in war preparations. By using her activities and achievements for purposes of comparison we may be able to estimate what *can* be done, and what *needs* to be done in Britain.

“ It is wrong to consider German economic policy since 1933 as a casual product of temporary needs. That policy is based on certain specific theories and aims. It is shaped and given its laws by the State. It is an instrument in the service of the unfolding of national totalitarian power.

“ In National Socialist Germany *there are thus no economic laws by which economic development is governed*, as the laws of classical economic theory are supposed to govern economics. *The laws of the National Socialist State govern the economic order.* And these laws are in the service of those ideas which dominate the policy of the Third Reich: Power, Honour, Liberty — in the connotation given to these terms by that Reich.

“ To give economic matters their place in the organism of the totalitarian State demands comprehensive planning. This has been systematically carried out since 1933 from retail trade to the planning, for the whole Reich, of agriculture, industry, housing. Since, according to National Socialist opinion, Power,

Honour, Liberty can only be defended or won by military means the plan is a military one.”<sup>1</sup>

In other words Germany's political policy does not arise out of her economic needs. On the contrary her whole productive system is subordinated to the military ambitions and the power aspirations of her leaders.

This statement is made by a writer whose knowledge of the subject is beyond question. He goes on to describe the methods by which State planning is conducted, and I find his comments fully verified in a speech made by State-Secretary Rudolf Brinkmann of the German Ministry of Economics.

Herr Brinkmann admitted that

- “the freedom of disposition of the entrepreneur in the sphere of commodity purchase is chained down by the system of supervisory boards and other regulations ;
- “that the utilisation of labour is subject to various restrictions ;
- “that the wage ceiling and prohibitions of price increases force a price level which in a liberal economy would be impossible ;
- “that money intended for consumption is forcibly shifted to capital investment, and that the entrepreneur sees himself forced under State interference to make capital investments which he would never have made if he had been left to his own doing ;
- “that money capital is enfeebled by the Law for the Compulsory Investment of Surplus Dividends and is forced, by the prohibition of private issues on the capital market, to offer itself at a cheap rate for purposes in which it is but little interested.”<sup>2</sup>

<sup>1</sup> “German Housekeeping”, by F. U. Haggau (*The Fortnightly Review*, September 1938).

<sup>2</sup> Weekly Report of the German Institute for Business Research (November 2nd 1938).

The exercise of this discipline over the economic system may have had a deplorable effect upon the economic welfare and the general conditions of life of sections of the community, but the total results, judged as a contribution towards the fulfilment of a military plan of economic expansion, have been eminently satisfactory.

## (2) THE STATE'S SHARE OF THE NATIONAL INCOME

When the Nazi Party came to power in Germany there were approximately five million workers unemployed. In March 1938 this figure had been reduced to about half a million, and, as is well known, there is now a serious shortage of labour. The natural increase of population has also been absorbed into productive effort. At June 1933 there were 13,307,000 employed workers; at March 1938 there were 18,831,000<sup>1</sup> — an increase of five and a half millions. Production has been correspondingly increased. Taking 1929 as 100, the index of production, which had fallen as low as 69·2 in 1933, had risen by March 1938 to 123·1.<sup>2</sup> The nature of this increased production is indicated by the fact that the production of consumption goods rose only to 112·0, while the production of investment goods rose to 129·1. This points to the expansion of output capacity, and is undoubtedly related to rearmament and the keying up of the economy in readiness to bear the exceptional burden of war production. It is also occasioned no doubt by the extraordinary effort of Germany to achieve self-sufficiency in the production of goods

<sup>1</sup> Now 21,000,000 in report issued January 1939.

<sup>2</sup> Now 146·0 in report issued January 1939.

which she formerly imported and in the development of industries producing substitutes. Competent economists who have studied the subject estimate, moreover, that Germany's expenditure for military purposes from the inception of the Nazi system to April 1st, 1938, has totalled at least 42 milliard marks (£2,800 million),<sup>1</sup> and that she is spending at the rate of at least 18 milliard marks (£1,200 million) per annum. on military preparation, a rate which seems to be still increasing.

The national income has risen from 45·2 milliard RM. (£3,013 million) in 1932 to 70·97<sup>2</sup> milliard RM. (£4,731 million) in 1937. This is, of course, a reflection of the great expansion of production referred to above. When we look at the share of the national

<sup>1</sup> It is extremely difficult to estimate the equivalent of the German expenditure in terms of sterling. The purchasing power of the mark varies considerably in different fields. In general it may be said that it is high as far as the command over labour is concerned and rather low in purchasing raw materials and foodstuffs, both home and foreign produced, on account of the relatively limited natural resources of Germany and the desire for autarchy. The cost of the personnel of the defence forces per head in terms of marks is probably much lower than the equivalent expenditure in this country reckoned at the official rate of exchange (RM. 11·90 per £). This rate of exchange perhaps expresses the true purchasing power parity as far as domestic wages are concerned. One might, however, quite safely assume that the mark is worth not much more than 50 per cent of its nominal gold value in purchasing raw materials and foodstuffs. The cost of raw materials is only a small portion of the cost of armaments (except for fuel, explosives and shells). Moreover, in Germany certain important arms (planes) are now manufactured on a mass-production basis, whereas in the Western countries they are still produced by costlier methods. Therefore, in order to make a conversion of marks into sterling, for the purpose of comparison, I have assumed an exchange rate of 15 marks per £. This certainly does not err in producing a total which is excessive in terms of pounds sterling. If anything, it might be criticised as too conservative a basis.

<sup>2</sup> The National Income for 1938 is now given as 76 milliard R.M.



income taken by the State we are again able to judge the enormous diversion of labour and capital that has taken place in obedience to State needs. In 1932 the State was taking, by Tax and Customs Revenues and Social Contributions, 30·6 per cent of a national income which totalled 45·2 milliard RM. (£3,013 million). In 1937 it was taking 33·5 per cent of a national income of 70·97 milliard RM. (£4,731 million).

“ If we add to this the financial requirements of all other public law corporations, which fulfil politico-social obligations and satisfy collective needs, we find that in 1937–38 total financial requirements were 35–40 milliard RM., or a good one-half of the national income. Including the expenditures of the public profit-making enterprises, about 45 milliard RM. or two-thirds of the German National Income flowed through the hands of, and was redistributed by, the State.”<sup>1</sup>

In addition to these taxes and tax-like fees a number of other sums not included above were also levied, such as export promotion contributions, and other administrative fees.

### (3) ECONOMIC REGIMENTATION

Discussing the extent of State control over the economic system, Mr. F. W. Haggau says that National Socialist economic policy is not the abolition of private property, but the restriction of the owner's power to use and dispose of it.

“ All industries are subject to the supervision of one of the numerous Control Boards which regulate the distribution of raw materials and thus supervise buying and selling.”

<sup>1</sup> Dr. Brinkmann in speech already quoted.

A great deal of factual material regarding the methods which Germany has employed to secure the phenomenal increase in her armaments production is contained in an article which Mr. Thomas Balogh contributed to the *Economic Journal* in September 1938. In a summary of his conclusions Mr. Balogh says :

“ These considerations seem to demonstrate —

“ (a) that the Nazi Government has succeeded in evolving an — initially empirical — system which — provided the available powers of control are ruthlessly and skilfully used — is not subject to fluctuations in employment (though subject to fluctuations in real income on account of inevitable changes in the terms of its foreign trade) ; <sup>1</sup>

“ (b) that this system is based on three main controls, of costs, of investment and of international trade ;

“ (c) that this system is economically stable on its own terms in so far as it does not involve cumulative processes undermining the standard of life ;

“ (d) that the real sacrifice <sup>2</sup> imposed on the German population by militarisation (rearmament and self-sufficiency) is very much less than commonly supposed.

“ Most of the difficulties and frictions are not necessary consequences of this system itself, but of the aims which it has been made to serve and which are by no means identical with the system.

“ The German picture exhibits the signs of an

<sup>1</sup> German experiences, therefore, cannot be applied directly to problems of free systems. The investigation of how far methods compatible with democratic government can achieve identical ends is a different and vitally important task.

<sup>2</sup> In the historical sense, Germany has sacrificed a potential increase of consumption.

economy on a war footing using fully those reserves of moral and material character which in other countries are not usually mobilised before the beginning of hostilities."

#### (4) FOREIGN TRADE

The comprehensive planning of national production depends, of course, upon a complete control over foreign trade. This control enables the German Government to determine the character of the country's imports. The foreign currency obtained by sales abroad is therefore utilised to the best advantage from the State point of view — *i.e.* to secure the kind of raw materials and other imports which fit in with the internal plan of economic expansion. But it is in regard to the outward flow of German trade that Britain must be concerned. The methods Germany employs are designed not for a normal competitive expansion of her sales but for the achieving of an economic stranglehold over certain countries with a view to their political as well as economic subjugation. By these methods it is possible for her to aim not only at the strengthening of her own military position, but, by domination of the markets, at a weakening of the British economic structure through our loss of foreign trade.

"In the past, Government intervention usually assumed the form of direct or indirect subsidies to exporters. This device, which in the changed circumstances has come to be regarded as almost orthodox, is freely applied by the German authorities; but it is supplemented by a series of other devices."<sup>1</sup>

Included in the older methods was the use of blocked marks — that is to say, that imports into

<sup>1</sup> *Economist*, November 5th.

Germany would be paid for in marks which could not be freely used and which had to be expended upon German goods "which in the ordinary course could not have been marketable abroad". Imports on a large scale were encouraged by the offer of high prices, particularly in the Balkan countries. Frozen credits were thus piled up and Germany was able to dictate the means of payment.

*"Germany got the advantage of a low-value currency for her exports and a high-value currency for her imports, at the expense of the foreign owners of blocked marks."*<sup>1</sup>

By these methods Germany's share in the total trade of the following countries was greatly increased.

GERMAN INCREASE IN THE PERCENTAGE OF THE TOTAL TRADE OF THESE COUNTRIES, COMPARING 1937 WITH 1932

Country	German Imports 1932-1937	German Exports 1932-1937
Italy . . .	15·7-23·0	14·2-17·2
Turkey . . .	25·3-43·7	15·1-38·5
Rumania . . .	28·6-40·1	18·7-27·1
Jugoslavia . . .	31·0-33·6	33·4-35·2
Greece . . .	11·9-30·2	18·7-32·1
Hungary . . .	38·0-44·2	45·3-36·4
Bulgaria . . .	31·9-58·0	41·0-47·1

The success has not been so marked in other areas, Central and South-eastern Europe being of most immediate importance to Germany from a military point of view. Nevertheless, her percentage share of some South American markets has increased: in Brazil from 9 per cent to 23·9 per cent; in Chile from 14·7 per cent to 26·1 per cent; and in Peru from 10·7 per cent to 19·7 per cent.

"Hitherto Germany's drive in South-eastern

<sup>1</sup> *Economist*, November 5th.

Europe has been somewhat indiscriminate. . . . Her aim (now) is

- (a) to promote their output of primary products in which she herself is deficient, and
- (b) to improve their communications and to foster industrialisation in order to secure an outlet for her manufacturing industries " (*Economist*).

A full development of the resources of these countries would enable them to supply *all* Germany's requirements in cereals, timber, oil, tobacco, copper ore, skins and leather, livestock, meat and fats, and a considerable proportion of her requirements in cotton and wool.

In a series of articles on this subject in *The Times* (November 17th, 18th and 19th) the writer issues the warning that :

" the Balkans, as we have seen, are unlikely to absorb the whole force of the Nazi trade dynamic. They are, as they have always been in history, a stepping-stone ; and it is for us to decide whether we can marshal our own forces to meet on an equality, and in a complementary sense, the challenge that may soon be offered in wider fields of enterprise."

In the House of Commons debate on November 30th, Mr. Hudson<sup>1</sup> quoted figures which show the lengths to which Germany is prepared to go in this policy of economic aggression.

Mr. Hudson stated that " At a particular date this year the Germans were paying over £10 a ton for wheat, at a time when Manitoba No. 1 wheat was selling at £7 on the London market ". They have followed the same course with regard to barley, eggs, cotton, hides, meat, poultry, oil seeds and cereals.

<sup>1</sup> Hansard, vol. 342, no. 17, cols. 502-503.

“ By these methods Germany is obtaining a stranglehold on the countries in that part of Europe (South-eastern Europe), an economic stranglehold at the expense of her own people, because it means raising the cost of living to her own people and, in fact, exporting goods at less than cost price.”

He recognised that this behaviour must be regarded as aggression and that the dangers involved to the economic stability (and consequently the defensive strength) of this country were alarming. In discussing the defensive action we might take, he said :

“ We have made a survey of all possible methods, and the only way we see is by organising our industries in such a way that they will be able to speak as units with their opposite numbers in Germany and say, ‘ Unless you are prepared to put an end to this form of treatment . . . we will fight you and beat you at your own game ’.”

It is a relief to know from this statement that the Government is determined to take action in the matter. The second part of this memorandum will be concerned with a discussion of *what* action ; for, as Mr. Hudson’s reference to “ organising our industries ” indicates, there is involved in this question the whole problem of economic reconstruction.

### (5) THE DIVIDENDS OF DICTATORSHIP

It is very difficult to obtain reliable information about what is going on in Germany, but the foregoing summary is sufficient to give us an impression of the formidable preparations that are being made. The economic system has been regimented as a war basis. The energies of the whole nation are directed in accordance with the will of a Dictator who is operating a

military plan of aggressive nationalist and imperialist expansion. Unemployment has been reduced to the minimum. Production has expanded enormously. The national income has been increased by 65 per cent in five years. The armed forces have been strengthened and equipped with unprecedented speed and thoroughness. Foreign trade has been developed by political methods for political and military ends.

By contrast with these achievements we are still maintaining in Britain an unemployed army of approximately two million workers ; the condition of British industry generally is again unstable after a period of only partial, and relatively slight, recovery ; our export industries in particular, which never emerged from acute depression throughout this period, are now enduring a further decline of alarming dimensions.

The efforts made by Germany, on the other hand, have already been rewarded. No nation has ever gained more — in territory, in population, in prestige and in economic and political influence — without resort to war. On March 1st, 1935, the Saar territory was returned to Germany. On March 7th, 1936, the Rhineland was reoccupied by German troops. On March 13th, 1938, Austria was invaded and annexed to the German Reich without a shot being fired. On September 30th the Sudeten areas of Czechoslovakia were ceded to Germany under the Munich agreement.

After the occupation of Austria the new German Reich became — with the exception of Soviet Russia — by far the greatest of the European States both in area and population. Germany, after the Great War, was obliged to cede 70,144 square kilometres of territory. With the inclusion of Austria within the

Reich frontiers, the total area of the new Reich is 554,592 square kilometres, which is 14,724 square kilometres greater than the area of the German Empire in 1914. As a result of the fusion of Austria, also the population of Germany was increased by 6,786,000 people to a total of 73,860,000 — a population which exceeded that of France by thirty-two millions, of Italy by thirty-one millions, and of the United Kingdom by twenty-seven millions. The former Austrian army — now incorporated in the Reichswehr — comprised seven divisions with an aggregate of about 60,000 men.

This accession of strength was gained by Germany “by an open exhibition of overbearing force”.<sup>1</sup> The *Daily Telegraph*<sup>2</sup> made a comment on the occupation which echoed the feeling of the world at that time. It said:

“It would be difficult to find any parallel in modern times for the manner of this onslaught by one State, against another. What is tantamount to annexation by ultimatum at a moment’s notice is a step which cannot be excused or condoned by any canon of international intercourse. The last remains of the old Austria, where civilisation and tolerance, religious spirit and personal good humour survived even in the darkest days of the post-war depression, will now be disciplined out of existence by the Nazi jackboot.”

It was only six months later that these gains were added to enormously by the annexation of the Sudeten districts of Czechoslovakia. By this Germany achieved a further increase of population of 3,600,000, bringing her up to a grand total now of 78,700,000. She gained also an additional area of 28,380 square kilometres (10,900 square miles), bringing the territory

<sup>1</sup> *The Times*, March 14th, 1938.

<sup>2</sup> March 14th.



of the Reich up to 588,000 square kilometres. Economically she gained rich coal deposits and important industrial undertakings, a flourishing timber industry, radium deposits and valuable agricultural land. Politically, the Reich has pushed its frontiers beyond the mountain ranges which formerly constituted the frontier between Germany and Czechoslovakia, thereby gaining a far more favourable strategic position, together with control of important railways and railway junctions.<sup>1</sup>

The above information is by no means an adequate description of the gains to Nazi Germany as a result of her occupation of Austria and the Sudetenland. It is quoted here merely to bring home the point that the rewards of her aggressive development have been tremendous. From the standpoint of imperialist expansion, and of military preparation for any future emergency, the Dictatorship can certainly claim to have paid substantial dividends. It is for us to assess calmly the measure of this strength and the methods now being adopted to increase it.<sup>2</sup> This is the background against which we must consider the action Britain must take to ensure her own safety and to preserve, if possible, the peace of the world.

<sup>1</sup> Above information taken by "Keesing's" from the *Frankfurter Zeitung*, "Wirtschaft und Statistik".

<sup>2</sup> According to the German Army Year-Book, the Reich will have henceforward a yearly intake of some 100,000 Austrian recruits. The yearly intake of recruits from the Sudetenland will be about 50,000. In addition, some 400,000 Sudeten Germans of military age have received training in the Czechoslovakian Army. In the German Army there are now 39 ordinary divisions, each of approximately 15,000 men, making a total for ordinary divisions of 585,000. With corps and army troops the total peace strength of the German Army may now be estimated at about 850,000 men. Each of the standing divisions is backed by at least one reserve division, so that on mobilisation 1,700,000 men can be placed in the field immediately.

## CHAPTER III

### BRITAIN'S TASK

THERE are two lessons we have to learn from the course of German policy which has been indicated above. The first is that, even if we had no fear of an emergency arising in which we would be called upon to defend ourselves with arms, some action is immediately required to support our foreign trade and its associated services, and to maintain our foreign investments. The second is that an important part of our preparations for such an emergency is the achievement of greater strength and efficiency in the economic system generally. In the introductory paragraphs we defined four of the economic aspects of rearmament with which it is the purpose of this memorandum to deal. We shall deal in what follows with each of these aspects in the order in which they were listed on page 3.

#### (1) OVERSEAS TRADE AND OUR GENERAL ECONOMIC RELATIONS WITH OTHER COUNTRIES

By subsidising her exports and by the manipulation of "blocked marks" Germany has achieved a large measure of economic and political dominance in South-eastern Europe. She is now seeking to obtain a stranglehold upon other markets by the same methods. British exporters are being faced all over

the world with a competition which carries behind it all the resources of the German nation, and the power, which these resources provide, to ignore altogether the costs of production or the profits of trade. This would be a serious matter for us in normal times ; it would be disastrous to allow it to continue in the present state of the world, when we are under the necessity to reinvigorate our economic system and to maintain our power to import additional food and raw materials as part of our Defence preparations. The question before us is what action it is possible to us to take to restore and to safeguard our position in the markets of the world.

It is obviously impossible for the British exporter, acting invariably as a single individual or a single firm, to stand up to the competition of a State organisation which is not primarily interested in costs and prices. The Exports Credits Bill which is now before Parliament provides an additional £25 million for ordinary export credits and £10 million for extraordinary assistance where the political conditions demand it. This is a welcome indication of our determination " to fight " anyone employing the German method " and beat them at their own game ". It is not, however, sufficient in itself to ensure victory. Germany is not only subsidising her foreign trade, she is also mobilising her power as a buyer of goods to enforce the sale of her goods. We must do the same. The granting of financial assistance to individual exporters would not place us in a position to compete in the enormous barter transactions that have now become so common. Nothing short of a *national* organisation of our export and import transactions will be adequate if we are to hold our position in

competition with other countries where such organisations have been established.

In a book<sup>1</sup> published late in May 1938 I dealt with this problem in considerable detail. It is not necessary to repeat the arguments which were there advanced. The conclusion I reached was substantially the same as that which seems to arise from a study of our present difficulties.

We require —

- (a) The organisation of exporters in cooperative selling organisations; to eliminate the competition in foreign markets of British producers among themselves, and to enable them to act as single units for each trade.
- (b) The organisation of importers to prevent competitive buying and to allocate the available funds for the purchase of imports in such order and quantities as correspond to the national interests.
- (c) The coordination of the different aspects of our overseas economic policy — that is, the exchange of goods and services, tariffs and quotas, exchange equalisation, foreign investment, credit policy, etc. etc.
- (d) The general direction of all these aspects of trade policy to serve the economic interests of the nation as a whole, while at the same time taking account of strategic considerations both political and military.

In order to achieve these ends, and to be able to operate such a foreign trade policy as a consistent whole, I hold that it is necessary to create a single

<sup>1</sup> *The Middle Way*, by Harold Macmillan (Macmillan, 1938).

authoritative foreign trade organisation which, under the general direction of the Overseas Trade Department, would bring together and combine the activities of the Import Duties Advisory Committee, the experts in charge of the Exchange Equalisation Funds operations, representatives of finance to advise on foreign lending,<sup>1</sup> and representatives of the exporters' selling organisations and of the importers' buying organisations. Such a body would bring each aspect of our economic relations with other countries into conformity with a coherent policy. It would be able

<sup>1</sup> Sir Robert Kindersley, in his study of British overseas investments, draws attention to the circumstances which "not only foreshadow the possibility of undesirably wide fluctuations in income from foreign investments about a level whose long-term tendency is downwards, but also a disturbing instability both in the total and in the structure of the investments themselves. . . . Furthermore, the purchases of foreign equities by British investors are not, as used to be generally the case, made with the intention of holding them as long-term investments; and do not, therefore, provide the same steady support as formerly for our export trade. . . . The continued decline in those British overseas securities held for more permanent investment, from which a steady and substantial income has accrued over many years, is nevertheless a matter for serious concern; for it is this income, before all else, that has enabled the United Kingdom to secure a volume of imports greatly in excess of exports, and thus to maintain a standard of living higher than that of almost any other European country.

"The prospect is rendered worse by the possibility that political and economic pressure from abroad accompanied by rising costs at home may continue to restrict the outlet for exports; while requirements for intensified rearmament may make it difficult to bring about a corresponding reduction in imports. Should present trends continue, as seems likely, this situation can be met adequately only by a consciously directed national effort aiming at an improvement in efficiency of management and a substantial increase in output per head of the population. In any event, the strain on our social and financial structure must be severe; without a collective effort a considerable lowering in the general standard seems inevitable. The problem has indeed become as urgent as it is grave." (*Economic Journal*, December 1938.)

to support our exporters by the bargaining power of our imports, and this power would be enormously increased if we adopted on a serious scale the proposals for the accumulation of essential foodstuffs and raw materials which are referred to below. It would arrange for the proper representation of British goods in the world markets where they are too often insufficiently represented to-day ; it would market our exports at the best prices obtainable and pay to our export industries prices which bore a proper relation to the efficient costs of production ; it would offer to enter into arrangements with other countries for the observance of fair prices, and it might prepare the way for international agreements for the sharing of world trade on an equitable basis. What we require is a foreign trade organisation which can either *fight* with whatever weapons others are using, or make peace on the basis of a fair division of world trade.

## (2) PRODUCTIVE EFFICIENCY

However skilfully our foreign trade was conducted the competitive efficiency of our industries would still be of vital importance. Moreover, our economic and military strength depends in the last resort upon our ability to produce the maximum of goods with the minimum of men. All industrial efficiency is measured as an economy of labour. A serious policy of national defence could not continue to tolerate the waste of labour, through competitive redundancy as well as through unemployment, which is now so prevalent in Britain.

(a) *Industrial Organisation*.—During the last six years I have been formulating and advocating pro-

posals for industrial reconstruction which need not be repeated here. I believe that the general principles of these proposals correspond to the realities of what is needed and, equally important, what is practicable. The alarming thing is that in almost every case in which these principles have been embodied in a proposed piece of legislation a narrow-minded opposition has forced the measure to be withdrawn. This happened over the Electricity Distribution reorganisation proposals; similar obstruction is hampering the adoption of the Cotton Industry Enabling Bill; it happened the other day with the Milk Industry Bill. These are examples only of the lack of cohesion and common purpose that is undermining democracy both in this country and in France. The root of it is that where private interests and public needs come into conflict there is no authority with the courage and the will to insist that the public interest shall prevail. Unless this is changed the Democracies are doomed to go down in front of the Totalitarian offensive like a rabble before a disciplined and unrelenting army.

Industry should be given the opportunity, under the powers of an Industrial Reorganisation (Enabling) Act, of putting its own house in order and achieving the output necessary for national requirements with the greatest possible economy of labour. If the desired results were still not being attained, then the Government should have the courage to step in and sweep aside every obstacle to the realisation of the plans essential for national defence and economic security.

(b) *The Unemployed*.—If action were taken throughout the whole field of production to expand output and thereby to increase the national income, it

is probable that many of the more skilled and adaptable workers now unemployed would be absorbed into productive employment. We have already become familiar, however, with the rigidity of this problem and the difficulty of transferring certain workers to occupations to which they have never been accustomed. To some extent the difficulties might be eased by a relaxation of Trades Union practice and the provision of facilities for retraining, under some scheme of dilution similar to that adopted during the Great War. If action were taken to induce, or, where necessary, to compel, capital to obey the national will and to serve the national interest, then it would be justifiable and possible to require that unemployed labour should be trained and utilised for suitable employment. If there were agreement on the aims of policy; if it were made clear that the purpose of our effort was to defend Peace and Democracy, there is no doubt that the voluntary cooperation of workers' organisations would be obtained.

Under a national plan of defensive preparation in which all sectional interests were being subordinated to national needs the issue would become plain and clear. Either we should make use of all the available labour and, by increased production, maintain the standard of life, or we should leave part of our labour resources idle and, by the diversion of other workers to armament production, allow the production of consumers' goods to decline and the standard of life to fall. Faced with that choice there can be no question that the whole nation would demand the full utilisation of the available labour for productive work. There is *something* that everybody could do or be trained to do. With the advice and assistance of workers' repre-



sentatives the National Planning organisation should be able to allocate unemployed workers to the jobs they are most fitted to be trained to do.

We have learned from experience, however, that the easiest and most profitable way to employ idle workers is in their own industries. The most acute unemployment is in those industries associated with the export trade. It is submitted that the activities of the Export Organisation that has been proposed would result in the expansion of employment in the export industries. The decline of our overseas trade is to a large extent a consequence of the competition of low-paid labour or of subsidised exports. The new export policy would be to neutralise that kind of competition by various forms of aid and by the bargaining power of our control over imports for our home market. The Textile and the Coal industries have suffered particularly from unfair competition and should be correspondingly benefited by any policy adequate to the protection of our trade interests abroad.

Another example of what might be done is to be found in the Shipping and Shipbuilding industry. Everyone knows that because of our island position, and our dependence upon overseas supplies, a strong merchant navy is a vital part of national and Imperial defence. In a letter to *The Times* of December 14th, 1938, Sir Charles Barrie, M.P., gave some interesting figures on the subject which ought to be remembered.

“ In 1914 we had 41·6 of the trading tonnage of the world, to-day approximately 26·4. We have approximately 1744 fewer vessels of 1,216,685 tons than in 1914, the rest of the world 4965 more vessels of 21,466,274 tons, and in personnel we have 60,000 fewer men at sea than in 1914. These figures should

surely make the country think, or are we so complacent as to allow this process to proceed without attempting a remedy, for next year it will be worse? It is estimated that 75 per cent of our shipbuilding capacity will soon be idle — and thousands of men on the dole. Twenty years ago we had 312,000 men in the industry, to-day 171,920.

“ Merchant shipbuilding in foreign yards under construction is now 1,800,000 tons compared with 885,000 tons in British yards. In 1929, to go back no farther, we built 50 per cent of world tonnage (at one time it was 80 per cent); to-day it is 33 per cent. Tonnage launched in British yards for the past nine months of 1938 — 750,000 tons; in foreign yards, 1,500,000 tons. That is the picture, and not a very pleasant one, of the position of the British Mercantile Marine and Shipbuilding.”

He summarised the causes of the decline in British Shipping and Shipbuilding as being :

- (1) The World War taught foreign nations the advantages of having a mercantile marine, and they made up their minds to have it, whatever the cost ;
- (2) barter transactions, by Germany and Italy especially ;
- (3) direct subsidies to both shipbuilders and ship-owners ;
- (4) currency devaluation ;
- (5) lower labour costs ;
- (6) lower taxation ;
- (7) lower cost of material.

The remedy for this dangerous situation was outlined as follows :

“ A good-class tramp will to-day cost to build in this country approximately £13 a ton. No tramp

shipowner could face that. Ten pounds a ton as a maximum is more like it. How are we to bridge it? There is one possible way. If the country want a Mercantile Marine they must pay for it, just the same as they subsidise sugar, wheat, etc., and tax other imports. The Government must foot the bill. That means about 50 to 60 tramps of approximately 500,000 tons a year at £3 — £1,500,000 per annum for several years. These are the figures for tramps alone, apart from liners. The shipbuilder and shipowner would rather do without the subsidy, but as things are now I doubt if there is any other way, if the nation require ships, and they do. To pay £1,500,000 per annum is cheaper and better than keeping thousands of men on the dole."

In a debate in the House of Lords on December 13th, Lord Essendon stated that, "It was a deplorable fact that at present there should be £7,000,000 of shipping building abroad *for British owners*, when in normal times we expected to get £10,000,000 of foreign orders in this country". With reference to freights for British merchant vessels he said :

"With regard to the wheat bought from Rumania, it is safe to say that if the grain had been shipped in British ships it would not have been captured by General Franco. The real reason seemed to have been that the Greek ships were willing to carry the cargo at 1s. or 2s. a ton cheaper than the British ships. The British ships were not prepared to go out in ballast to lift these cargoes at a loss. In similar circumstances other countries insisted on carrying cargoes in their own ships, and even at a higher rate these cargoes might very well have been carried in British ships. The operating expenses of British ships were higher, largely because of the higher standards established by the Government and which he was not regretting. British vessels should receive the full back-

ing of Government Departments on every possible occasion, so that in that respect they might enjoy the same measure of support as their foreign competitors."

This subject has been dealt with here at some length because of its relation to the whole problem of national safety. The facts quoted show the urgent need for a coordination of policy so that the question of assistance to British Shipping and Shipbuilding should be estimated in relation both to the amount of money we are now spending on the maintenance of unemployed workers belonging to these trades, and to the vital need of maintaining our merchant shipping fleet as part of our defence policy. It is suggested also that an Export Organisation such as we have envisaged would be in a stronger position to divert cargoes for British ships by a policy of bulk purchase and coordinated selling, and also in connection with the storage of essential foodstuffs and raw materials referred to below.

(c) *Expansion*.—The rationalisation of industry with the consequent release of redundant workers, together with the workers now unemployed, would provide a great supply of labour available for fresh tasks. It should be used for the expansion of production of certain goods and services in accordance with a plan to overcome economic disequilibrium resulting from unavoidable disturbances in our foreign trade, and to achieve a better balance between industry and agriculture.

Only 6·7 per cent of our employed population is engaged in Agriculture and Fishing. The proportion of our labour resources devoted to distribution and services has now risen to 37 per cent of our insured workers. This is probably unhealthy at the best of times, but it is

unintelligent and dangerous in present circumstances. It has no parallel in any other major country. In Germany, where approximately 30 per cent of the population are still in agricultural occupations, energetic measures have been taken to fight the depopulation of the land and reverse the decline in agriculture. A National Economic Council should be set up without delay and charged with the creation of an organisation for the direction of economic development, including the direction of capital investment and labour resources, on the lines suggested in this section.<sup>1</sup> Until we have launched some such plan for the increased production of wealth and the expansion of the national income there is no justification for another penny on the Income Tax or for any sacrifice by the mass of the people. The whole cost of rearmament could easily be borne out of the increased activity that would result from an intelligent use of our idle, under-employed, and wrongly employed people.<sup>2</sup> The slack incompetence of an unplanned economy must give place to the disciplined efficiency of rational organisation and control.

<sup>1</sup> This Council would also perform the function, now partly entrusted to the Tariff Advisory Committee, of exercising a general supervision of the price and production policies of the cartelised industries.

<sup>2</sup> The Report of the Import Duties Act Inquiry (1936) showed tremendous variations in the net output per person employed. They ranged from £100 or less in trades employing a high percentage of unskilled or of female labour to as high as £500 or more in other occupations. If we took a low average figure of £200 net output per person employed and estimated that only an additional 2 million workers could be absorbed from among those now unemployed, or those redundant to the requirements of efficiency, we should be able to add, even on this low estimate, £400 million to the annual production of wealth and to the national income.

### (3) ACCUMULATION OF ESSENTIAL COMMODITIES

Under this heading I merely want to recall the suggestion made by Mr. J. M. Keynes to the Economics Section of the British Association in August 1938. He advocated the accumulation, under Government auspices, of £500 millions of essential commodities. This would cost only £20 millions a year and would be of very great benefit, not only as a reserve but as a means of preventing fluctuations in commodity prices. His proposal was that the Government should offer storage to all Empire producers of specified raw materials, free of warehouse charges and interest, or at a nominal charge, provided they shipped their surplus produce to approved warehouses in this country. The Government would not become the owners, and the owners would run the risks of price changes and would be free to remove and dispose of the goods, or deal in them against warehouse warrants. The Government could prevent the stocks falling too low, if international prospects appeared particularly threatening, by purchasing the goods outright. The technique would not interfere with ordinary trade, but would facilitate it, and the country's *entrepôt* business would be ensured. Far-reaching arrangements would become possible with the producers of raw materials within the Empire, also pig-iron made at home could be stored for munitions as well as for smoothing out the trade cycle. It will be remembered that Mr. Keynes added the comment that, in war, such reserves held in this country would be "better than a gold mine".

#### (4) TECHNICAL QUESTIONS

(a) *Ministry of Supply*.—Even with the creation of an organisation for the defence of our foreign trade and an Economic Council for the general rationalisation and co-ordination of economic activity for the elimination of waste, there would still be an urgent need for a Ministry of Supply to deal with the special problem of armament production and both military and civilian defence supplies.

The case for the setting-up of such a Ministry was admirably summarised in an article in the *Economist* of November 5th, 1938. The article quotes "the remarkable body of opinion that is pressing for the establishment of a Ministry of Supply" and goes on to advance the argument as follows :

" Mr. Chamberlain's main argument against a Ministry of Supply was that such a Ministry was synonymous with compulsion upon labour and capital. Now it is possible that a Ministry of Supply might have to use — it would certainly have to possess — certain powers of establishing compulsory priorities. But here again it is misleading to suppose that the necessity for compulsion arises from the existence of a single centralising Ministry. If we are to make arms on the requisite scale those priorities will have to be established. If they can be established voluntarily, a single Ministry can accomplish the task better than four ; if they require compulsion, it will have to be forthcoming from a Ministry of Supply or elsewhere. The distinction which the Prime Minister draws between what he calls a compulsory and what he calls a voluntary method is not the distinction between a Ministry of Supply and some other practicable method ; it is the distinction between an effective and an

ineffective system. Mr. Chamberlain himself seemed to realise this fact, for his frequent references to the question 'whether the time had come' when a Ministry of Supply would be necessary, implicitly recognised that it would be inevitable, sooner or later, and his final conclusion that 'when we have done everything that we can on voluntary lines, if then we find that we still cannot fill our requirements, then it will be time enough to talk about a Ministry of Supply' comes very close to saying that we must be found unprepared in still another emergency before the needs of the situation will be faced.

"In fact, however, the use of compulsion is by no means the essential part of the proposal for a Ministry of Supply. Business men in general are anxious to do what is required of them; the difficulty, for many of them, is that they are told different things by different Ministries, or by the same Ministry at different times.

"The two main tasks for which a Ministry of Supply is needed could be carried out, at least in their earlier stages, without any compulsion save on the defence departments themselves. The first is the task of organising priorities, of seeing that the present wasteful overlapping and confusion are removed. It is a task that cannot be undertaken by a co-ordinator who is not himself in executive control of orders. The second is the task of organising mass production. Mass production involves enormous quantities of standardised goods manufactured and delivered by plant working at optimum load for long periods. It requires designing and planning in advance for bulk orders in the closest consultation with industry; a self-denying ordinance on the designers to make no changes during production; the acceptance of testing by sample; and efficient methods of costing and waste-chasing. The organisation of supply on this scale is one of the most responsible and technical jobs



there is, in which the experienced industrial manager should give the instructions, not receive them.

"The case for a Ministry of Supply, in short, is not that it represents the compulsory as opposed to the voluntary system. The case is partly that it would be one Ministry rather than four or five ; and partly that it would be a different kind of Ministry from those that are effective in peace-time. Once the case is fully appreciated — and it is the task of all those who fear that the Prime Minister has not yet grasped it to preach it continuously — it will be found to be unanswerable." <sup>1</sup>

Another reason for the establishment of such a Ministry is that some clear policy should be formulated with regard to the profits of the armament industries. Obviously if we ask manufacturers to instal new plant and leave them in uncertainty regarding the extent of the orders that such plant will be given to execute, they are bound to seek recovery of their investment in the shortest space of time. To some extent the danger of excessive profits can be obviated by the establishment of more State-owned factories — and this may be essential also because of considerations of the safest (not the most economical) locations. But the question cannot be simplified to one of State or private ownership. We require not only more rapid production now but a much greater *capacity* for production in the event of war, and this requires that a wide range of concerns should be so equipped as to enable them to switch over to armaments production if and when we are involved in war.

A satisfactory policy would provide for a variety of methods including State factories, the erection of State-owned plant in privately owned factories,

<sup>1</sup> *Economist*, 5th November, 1938.

privately owned plant in factories normally concerned with peace-time production. In the first case there would be no profit ; in the second no question would arise regarding the rate of depreciation ; in the third it should be possible for a Ministry of Supply to arrange prices in relation to some guarantee of the value of the orders which would be placed with the private entrepreneur. It is unwise from a national point of view, and unfair to those private producers whose desire is to serve the national interest at a normal and legitimate rate of profit, that the present lack of coherence and clarity should be allowed to continue.

Everyone who is not blinded by dangerous optimism realises that sooner or later a Ministry of Supply will have to be set up. When the question is considered in the light of the impressive activities of Germany, it may be said that both patriotism and ordinary prudence demand that it should be done now.

## CHAPTER IV

### FREEDOM

THERE are many who acknowledge these arguments in favour of economic efficiency and military preparedness to be irrefutable, but who see also that such a policy exposes us to the danger that freedom and democracy will be destroyed.

They agree about the necessity for action so that our liberties may be defended from external attack ; they fear the paradox that freedom and democracy may be imperilled by the very measures initiated to defend them. The argument runs — that to defend ourselves against Fascist aggression we need to be efficient ; to achieve efficiency we must have discipline ; the extension of the area of discipline will eat into the area of freedom ; the greater the effort we have to make to defend freedom, the less we shall have to defend.

The reply to this argument lies in the purpose and direction of our foreign policy. If it is our purpose to ally ourselves with the forces of freedom, progress and enlightenment in the world for the defence of civilisation against barbaric aggression, and to lead the world into new ways of peace, security and international cooperation, then the risk is not great. If, on the other hand, our foreign policy were guided only by a desire to defend our material possessions, and took no account of the cultural values that are at stake, then there is a danger that our defensive organisation might degenerate into a tyranny similar to that against

which it is the will of the nation to defend itself. A democracy has therefore two duties in this connection. It must not be deterred by its fears from the essential preparations to defend itself from the reaction which threatens from without ; it must be vigilant to ensure that the direction of policy is entrusted to men who can be relied upon to fight reaction when it threatens from within.

The danger is one which is inherent in all progress in the development of economic and social organisation. Apart altogether from the urgency of our present special needs, the measures of economic reconstruction that have here been enunciated are essential to the liberation of the great mass of our people from the enslavement of poverty and economic insecurity. It is true that the displacement of labour and the essential discipline of mass production has in the past imposed upon sections of the population economic hardship and a degree of regimentation for which there has been no corresponding compensation. But this has been the result, not of rational economic planning on a national scale as is here suggested, but of the lack of social planning in a " free " economy subject to the anarchy of uncontrolled competition. The material welfare of the nation cannot be served by wasteful and incompetent methods of industrial and social organisation. Nor can the freedom and liberty of the people be safeguarded except upon the basis of a full exploitation of our resources, the improvement of the standard of life and the increase of leisure and opportunity.

When we consider the matter in the light of our present special circumstances the case is equally strong. We have to choose first whether we shall

defend our heritage or surrender it without a struggle. That question is answered before it can be asked. This country *will* defend itself and the cultural values associated with its democracy. On that issue there can be no doubt. What we have to decide is not whether but *how* we are to prepare to discharge that duty whenever it shall arise. Whatever we do it means that a great deal of productive effort must go into the creation of armaments and all the paraphernalia of war. In so far as we use up our labour and capital resources for these tasks there will be less available for the production of consumers' goods necessary to the maintenance of our standard of life. If we prolong and perpetuate the present wasteful methods of production and distribution, then the effect of a diversion of labour resources to arms production will mean a fall in the standard of life. Our freedom will be menaced by the frustrations of poverty and the probable loss of leisure. It is only by the full and efficient use of the resources of the nation in a planned system of production that we can discharge our duty to be adequately prepared, while, at the same time, maintaining the standard of life. Whether it is regarded from the point of view of peace-time production or defence preparation we have everything to gain from efficiency and everything to lose by incompetence.

The time is overdue, however, for the adoption of some kind of measures which would promote and facilitate a greater measure of industrial democracy.

"I regard it as fundamentally important that, with every step we take in the tightening up of the efficiency of industry, an equal step forward should be taken in facilitating the development of the demo-

cratic factor in industry by recognition and encouragement of the workers' Trades Unions."

Under the Industrial Reorganisation (Enabling) Bill, which is part of the proposals made for achieving greater efficiency, power would be given to a three-quarters majority of *owners* to enforce obedience to a scheme for the more efficient conduct of an industry.

"If it is right to provide statutory powers to enable a 75 or 80 per cent majority of owners to enforce their policy decisions upon a recalcitrant minority in their ranks, so must provision be made (in industries where these powers are used by the owners) to endow with equal authority the Trades Unions which are chosen by the workers as the organs through which they desire their working life to be regulated."

I have quoted these passages from my book *The Middle Way* in order to show that these proposals are not associated in my mind merely with the present emergency. The book was published over six months ago; these passages were written fully a year ago. The case for measures of industrial democratisation is not *created* by the need for national unity and general cooperation in a defence programme. It is merely made stronger and more urgent by our present needs — and that is true, I believe, of every other proposal made in the book for action which would enable us to combine the achievement of economic efficiency with the promotion of social freedom and the enlargement of individual liberty.

## CHAPTER V

### NATIONALISM OR INTERNATIONALISM

DEMOCRACY can be safeguarded only by the active pursuit of two main lines of policy ; one is to discover ways and means of applying the democratic principle to new situations as they are created by changes in the methods of wealth production and distribution ; the other is to direct economic effort in such a way as to expand the national income and provide the conditions of economic welfare in which freedom and democratic liberty can be used and exercised.

These are the duties which we should accept as the guiding principles of our policy in home affairs. The complement of that policy in foreign affairs in the present world situation must be, as Mr. Churchill has put it, "to gather together all the forces of resistance to the aggression of the Dictators and to make common cause so far as is still possible with other like-minded nations ".

But a policy of *static* resistance is not enough. If we are to achieve for mankind the circumstances in which their welfare and their liberty will be beyond the range of attack we must set up an ideal greater than that of national and Imperial greatness, greater even than that of national safety.

" There must be the assurance that some august international tribunal shall be established which will uphold and enforce, and itself obey, the law." <sup>1</sup>

<sup>1</sup> Speech by Mr. Winston Churchill, at Chingford, December 12th, 1938.

We must look forward to a time when the conflict between nations will be ended and the sovereignty of international justice, impartially administered, will be recognised.

It is the behaviour of others, and the menace which that behaviour constitutes to our economic welfare and our national security, that has forced us to consider the methods of economic defence suggested in this survey. Immediate necessity must not, however, blind us to the fact that, from the point of view of world prosperity and world peace, a purely nationalist conception of foreign trade is basically unsound. Moreover, we cannot foresee the variety of political régimes which will prevail among the different nations of the world, and the principle of non-interference in the internal affairs of other countries must be upheld. It is important, therefore, that we should keep constantly in mind the objective of international co-operation, and formulate an economic policy upon which this cooperation might be based. The Prime Minister was right in his expression of this view in the House of Commons debate on November 1st, 1938. He said :

“ We shall never get far unless we can accustom ourselves to the idea that the Democracies and the Totalitarian States are not to be ranged against one another in two opposing blocs, but that they can, if they choose, work together not merely for the settlement of differences after they have arisen, but also for the operation of a constructive programme, a programme which will facilitate the international exchange of goods and the regulation of international relations in various ways for the good of all.”

The road towards the realisation of that programme



will not be found, however, by weak concession to the bullying threat of aggression. The programme must be founded upon economic justice and not upon the temporary disposition of political and military power. It must study with equal sympathy the interests of the weak and the interests of the strong. It must be built upon the undeniable economic truth that the world has reached a stage of industrial development when prosperity — in any real sense of the word — is “indivisible”.

We have been attempting for twenty years to achieve world peace through *political* agreement in the League of Nations. The policy of “appeasement” now being followed is also founded on the theory that peace can be established by territorial and political concession. Is it not time for us to recognise that the League failed because political agreement cannot be based upon economic antagonism? If that truth were recognised, then we should see clearly that no amount of political and territorial “appeasement” offered to the aggressive imperialism of the totalitarian states will provide either a solution of their own problems or a basis for world peace in the future.

By weak concession we shall achieve nothing but our own destruction, and the surrender throughout the world of the democratic conception of liberty and progress. By a determined resistance to reactionary aggression we could preserve for a time the economic integrity and the cultural values of the Democratic States, but, if this resistance is negative in relation to the underlying economic causes of war, we should continue to have to pay the price of constant vigilance and to bear the strain of military preparedness. We

must prepare to resist now. Anything else would be treachery, not only to our own country and Empire but to the cause of peace and progress. But it should not be negative resistance. We should, at the same time, be formulating a policy of international economic collaboration designed to remove the causes of friction and to secure for every nation an equal opportunity for economic development.

Attempts have been made on a number of occasions during the twenty years of League policy to move in this direction. The present situation of the world is ample proof of the failure of these attempts. It is submitted that they failed, and were bound to fail, because there was no organisational mechanism in existence through which economic cooperation could be made to operate as a practical workable policy. We are now in the strange position, however, that each country is being forced to create, for the purposes of war, the same kind of foreign-trade organisation as might have been created for the purposes of peace. Under the pressure of war needs it has been found impossible to leave to the uncoordinated, and necessarily self-interested, efforts of a multitude of individuals and concerns in each country the trading and general economic relationships of each nation with the rest of the world.

In one way or another systems of national control have developed. Russia set the example with her complete State regulation of the volume and character of her exports and imports. Other nations moved in the same direction by elaborate systems of Tariffs, Quotas, Exchange restrictions, Currency manipulation, Subsidies and the many devices that have become familiar. The totalitarian dictator-

ships have completed the process in their own countries by setting up organisations for a rigid control of all trading relations with other countries. This system of trade has been used to serve the purpose of economic aggression and military preparation. Other countries are now being forced into line in their own defence. We are approaching a stage when the foreign trade, the foreign lending, the arrangement of credits and the maintenance of mercantile shipping will be organised by each country under a central control which will subordinate private interests to national policy. The era of free trade is ended ; we are witnessing the beginning of the end also of private enterprise over the whole field of international economic relationships.

These changes have been, and are being, brought about under the compelling necessities of national policy for purely nationalist or imperialist reasons. There has, however, been a strong tendency among private producers themselves to evolve new methods of international trade which eliminate the private individual or concern as a trading unit. National selling organisations have been set up under which the whole of the producers of particular commodities are enabled to end the competition between themselves, and to market their goods abroad by cooperative methods. The national organisations of producers have then come together in a number of instances to regulate the supply and sale of their goods under *international* agreements. The most familiar form of international agreement so far has been the restriction schemes for tin, rubber and tea in which the Governments of the producing countries participate. In addition to these, however, we had an example of a similar scheme

operated by the copper-producing companies themselves. Owing to changed market conditions the regulation of production under this scheme has recently been abandoned. There is still in operation, however, the scheme operated by the International Steel Cartel — a cartel formed and operated by the producers themselves. The British producers entered this scheme under a temporary agreement in April 1935, and in July 1936 agreed to adhere to the cartel for a period of five years. This cartel regulates the volume of exports and seeks to apportion markets equitably between the producer groups of each country. It is well known that there are a number of other international agreements in operation regulating the supply, the prices or the conditions of sale of other commodities, but regarding which no details are published. At any rate it will not be contested that there has been a tendency for producers to organise themselves efficiently on a national basis and then to enter into agreements with their foreign competitors for the regulation of international marketing.

It would appear to be the natural tendency, in conditions of large-scale production, for producers to attempt to surmount the national frontiers and to reach agreements among themselves by which these barriers to cooperation are overcome. The efforts that have been made in this direction are admittedly primitive, and it is true that they are inspired by the motive of creating more profitable conditions for sectional interests. Nevertheless, they show that the stage has been reached when there is a growing realisation throughout a widening sector of economic activity of the need for, and the possibilities of, a movement towards that international economic cooperation which

would provide the only secure basis for political agreement and world peace.

Producers' schemes, such as those that have been referred to, become possible, of course, only when the producers in each country have been brought under the discipline of an organisation able to enter into, and enforce, agreements on their behalf. Each country must first overcome the conflict of interests among its own nationals ; when this has been achieved the way is prepared for international cooperation. It is a process of growth. The organisation must first reach the stature of a national organisation before it is possible for it to become internationalist. Its development may be promoted in the earlier stages by the sentiment of nationalism. In this instance the natural trend is for nationalism to be superseded by internationalism.

The competitive development of world industry and trade has brought us to the present phase of intense nationalism. A large number of countries have set up their national organisations for the control of all external economic relations in accordance with national, as distinct from private, interests. Other countries, including ourselves, who have struggled to prolong their adherence to the older methods of trade, are now being forced by necessity to accommodate themselves to the new circumstances and to follow the example of creating national organisations for coordination and control. This form of external economic contact will become the rule rather than the exception. The nations will have achieved in this regard a reconciliation of the conflict of interests among their own nationals. It will then be open to them either to continue an economic conflict between nations which will lead to war, or make use of the

new organisational mechanisms for the realisation of international economic agreement and cooperation which would provide the basis of peace.

In Chapter III of this memorandum I tried to show that it has become vitally essential for us to arm ourselves economically with an organisation for the direction of our external economic relations. The argument in this chapter has been advanced to show that it is only by this same action that it would be possible for us to lead the world in a constructive effort for peace.

Immediately we had created the organisation proposed, and the nation was equipped to conduct its economic relations with other countries as a single unit, it would be possible for us to invite the other nations, whatever the character of their political régimes, to come together in an effort to work out a system of international economic regulation for the mutual benefit of all. The underlying causes of friction could then be brought forward for discussion.

International discussions of world economic problems have not yielded very satisfactory results in the past. Their failure was inevitable when it was not within the power of Governments wholly to direct and determine international economic affairs. In the new circumstances they would be able to speak as the actual buyers and sellers of commodities; they would know approximately what supplies would be required and what goods could be exported in exchange. The problem would be a business problem rather than a political one. It would readily be understood that the volume of sales is determined, all else being equal, by the volume of purchases, and that in the long run no seller of goods can benefit

himself by ruining his customers. In this atmosphere it might be possible to conclude agreements which would provide for all nations access to, and their fair share of, the supplies of raw materials, and reasonable and equitable opportunities for the sale of their exports in exchange for these essential supplies. Experiments might be made in the first instance on a relatively small scale, but if the principle of economic collaboration could once be established, and an international organisation of experts set up for constant supervision and review of current problems, the feet of the nations would be set upon the road which alone can lead to peace and prosperity.

It is fully realised that the difficulties would be great and that the rate of progress in this new field of effort might be very slow. It is realised also that each nation would have to be prepared to forgo temporary advantages for the sake of permanent gains that could only be realised at a later stage. The real hope of success would lie in the fact that war is even more difficult and would exact far greater sacrifices than could possibly be involved in the peaceful adjustment of economic disputes.

In the present state of world opinion these possibilities are so remote that a detailed discussion of what might be achieved would be almost irrelevant. Our first task is to equip ourselves with a correct foreign policy and the economic and military strength to sustain it. In doing so we shall be forced sooner or later to create a national foreign trade organisation on some such lines as have here been proposed, and to build behind it a powerful internal economic organisation conducted on rational lines for the full utilisation of our capital and labour resources. It is further

submitted that this action does not mean that we shall be abandoning the cause of peace, and regarding war as inevitable. It would, on the contrary, put us in a position to pursue a real policy of "appeasement" by seeking to evolve a method of economic collaboration which would root out the causes of war. We should thus be able to confront the aggressors with an offer of peace on equal economic terms with all other powers. If they refused they would be branded before the whole world as being interested, not in the righting of wrongs or in the economic welfare of their people, but in war for the purpose of conquest and the enslavement of other nations to their will.



APPENDIX

THE PRICE OF PEACE

NOTES ON THE WORLD CRISIS  
OF SEPTEMBER 1938

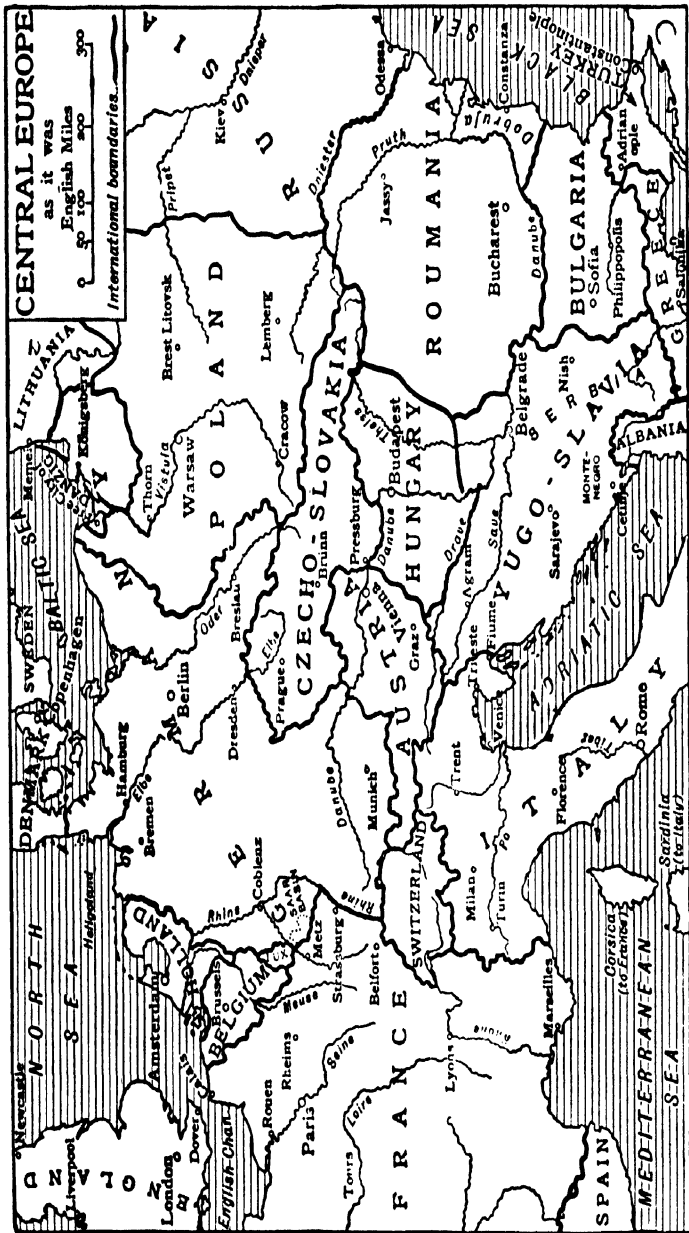
*(Originally printed for private circulation in October 1938)*

# CENTRAL EUROPE

**as it was  
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## International boundaries



# THE PRICE OF PEACE

## THE PLEDGES OF 1935

THE foreign policy upon which the present Government was elected in November, 1935, was stated clearly by the Prime Minister at that time (Mr. Stanley Baldwin). In an election manifesto he said :

“ It is in the cause of Collective Security and international peace that we have decided that our Defence Forces must be strengthened. We must be prepared to meet what have been termed ‘ the risks of peace ’ and these risks cannot be treated as negligible.” <sup>1</sup>

My own statement of this policy in my election address in 1935 was as follows :

“ The only instrument of peace is the League of Nations. The League must be strengthened and its authority upheld. Only a strong League, enforcing the Collective Peace System, can give security. When the Nations enjoy security, disarmament will follow. Meanwhile a measure of rearmament is essential to maintain the efficiency of our defence services, in order that we may be able to carry out our obligations under the Covenant of the League.”

The present Prime Minister, Mr. Neville Chamberlain, was even more definite and direct. In his election address in 1935, he stated :

“ The preservation of the League is the keystone of our policy because the first object of that policy is the establishment of settled peace and the League alone can give us peace by the collective action of its members. We have, therefore, made it clear that, while we shall take no action apart from others, we intend to fulfil our obligations under the Covenant in common with our fellow-members. Only in this way can we make it plain to would-be aggressors that it does not pay

<sup>1</sup> Article in *Popular Illustrated*, vol. 1, no. 6.

to attack another nation in violation of engagements solemnly undertaken."

### SUBSEQUENT HAPPENINGS ABROAD

Since then there have been many changes in world affairs. The Italians have conquered Abyssinia. Japan has invaded China. Germany has denounced the Locarno Treaty and re-occupied the demilitarised area of the Rhineland (March 1936) ; annexed Austria (March 1938) and, as a result of the threat of invasion, taken over a large part of the territory of Czechoslovakia (September 1938). It is beyond question also that, throughout the last two years, and in defiance of the non-intervention agreement, the Italians and Germans have supplied men, armaments, bombing planes and other war material to the forces of General Franco in Spain.

The League of Nations has failed to prevent these violations of Treaties and of international law. Its power and authority have been weakened by the withdrawal from membership of a number of countries.

### SUBSEQUENT EVENTS AT HOME

Great political changes have taken place also in Britain. Mr. Baldwin relinquished the Premiership on May 28th, 1937, and Mr. Chamberlain became Prime Minister. On February 21st, 1938, Mr. Anthony Eden resigned his position as Foreign Secretary, owing to differences of opinion with Mr. Chamberlain regarding the course of British foreign policy, and Lord Cranborne resigned from his position of Under-Secretary for Foreign Affairs. Since then responsibility for the direction of foreign policy has rested mainly in the hands of Mr. Chamberlain.

A British-Italian Treaty was concluded on April 16th, 1938, and made conditional upon Italian withdrawal from the Spanish conflict. The Italians have not yet withdrawn, and the Treaty has not yet come into effect.<sup>1</sup> The Czechoslovakian

<sup>1</sup> The token withdrawal of 10,000 men and the subsequent ratification of the Treaty have not materially affected the argument.

issue became acute at the end of July 1938, leading to British intervention by the sending of Lord Runciman as a mediator on July 26th. The failure of Lord Runciman's mission led to the conversations between Mr. Chamberlain and Herr Hitler and culminated in the Munich agreement, signed on September 30th, 1938. Following upon the announcement of the agreement, we had the resignation of Mr. Duff Cooper from the Cabinet and a Parliamentary situation in which 20 Government supporters abstained from voting in favour of a motion approving the actions of the Government.

### CZECHOSLOVAKIA NOT A LOCAL ISSUE

It is against this background of political history that the events of the recent crisis have to be considered. The differences of opinion among members of the Conservative Party, and of other groups supporting the Government, have not arisen out of a merely *local* issue concerning Czechoslovakia. The Czechoslovakian problem was not local ; it was a matter of profound significance to the peace of the world and to the security of the British Empire. The difference of opinion concerns, not isolated incidents, but the whole course and conception of foreign policy, and these different views had already expressed themselves over Abyssinia, over Spain, and in the resignations of Mr. Anthony Eden and Lord Cranborne.

### HISTORY OF THE CRISIS

The Czechs and Germans have lived together in Bohemia for many centuries. Prior to the world war of 1914, it was the Czechs who felt themselves to be a minority in the old Austrian empire and who were seeking liberation. Their opportunity came in 1918 and the Czechoslovakian State was set up by three treaties : the Treaty between the Allied and Associated Powers and Germany, signed at Versailles on June 28th, 1919 ; the Treaty with Austria, signed at Saint Germain-en-Laye on September 10th, 1919 ; and the Treaty with Hungary, signed at the Trianon on June 4th, 1920.

It must not be imagined that the Sudeten Germans have

been a badly treated and suppressed minority suffering under the tyranny of an alien Government, as Herr Hitler's speeches were calculated to lead the world to suppose. On the contrary, they have been the best treated minority in Europe. Nevertheless, they had their grievances ; and these grievances have been fully exploited by the Nazi agitators under the leadership of Herr Henlein in the Sudetenland.

There are two main reasons why the agitation reached its pitch this year. The economic depression following upon the crisis of 1931 hit most severely the industrial areas of Czechoslovakia, as indeed has been the case in every other country. It happens that the German minority live in the predominantly industrial areas, and severe unemployment has therefore been added to their other discontents. Moreover, Herr Hitler and the Nazi Party came to power in Germany in 1933 and the incessant propaganda which has since been carried on gave an impetus to extremist agitation among the Sudeten Germans.

### WAS IT A MINORITY PROBLEM?

In February 1938, Herr Hitler announced his intention to protect 10 million Germans in " two of the states adjoining our frontier ". On March 12th, 1938, the Germans marched into Austria. It is true that the following day Herr Hitler declared that Germany had no aggressive designs on Czechoslovakia. But recent events have shown how little value can be placed upon such declarations. The Sudeten German leaders were further fortified and encouraged by Nazi success in Austria. And it is not unreasonable to suppose, in view of what is known of Nazi propagandist methods, that they were assisted also with German money and propagandist material. By this time the Henlein Party in Czechoslovakia had become " a fifth column " of the German propagandist machine operating within the frontiers of Czechoslovakia and owing its main allegiance to Berlin rather than to Prague.

On July 26th, Lord Runciman was appointed as a special mediator to try to find a solution to the minorities problem. On August 4th he met the President, Premier and other officials of the Government in Prague and also representatives

of the Sudeten German Party. On August 5th, the German Government announced the first steps towards mobilisation "for the Autumn Manœuvres". Throughout the whole of the subsequent negotiations the German armed forces were held mobilised and ready to march. On August 26th, the Sudeten German Party issued a declaration setting their members free "to act in self-defence when attacked"; a statement which could only be regarded as an encouragement of violence.

Lord Runciman continued his negotiations, and on September 5th the Czechoslovakian Government produced the "fourth plan" which, in Lord Runciman's opinion, "embodied almost all the requirements of the Karlsbad eight points (that is the demands laid down by the Sudeten Germans *themselves* for a solution of the minority problem) and with a little clarification and extension could have been made to cover them all".<sup>1</sup>

This plan was never discussed. Instead, the Sudetens presented new and impossible demands. "Incidents were provoked and instigated" by the Sudeten extremists "on the 11th September and with greater effect after Herr Hitler's speech on 12th September".<sup>1</sup>

By these actions, undoubtedly taken by the Sudeten Nazis with the knowledge and approval of the German Government, it was made clear that German aims were much more far-reaching than the mere solution of the minority problem.

Arguments have been put forward in this country in defence of the British Government's handling of the situation which rest upon the assumption that what we were faced with was the rectification of an ordinary Minorities problem. Critics of the Government's foreign policy have all along been pointing out that this was a complete misconception. If it had been a Minorities problem, then Lord Runciman would have been able to claim to have solved it on September 5th, when the full Karlsbad demands were met. The fact that this solution was not accepted proved that it was not a Minorities problem, but that the grievances of the Sudeten Germans were merely

<sup>1</sup> Official Correspondence,

being used by the German Government as an excuse for territorial conquest and the achievement of economic and military objectives which would make them masters of Europe. These objectives have in fact been achieved. As Mr. Garvin put it in the *Observer* (October 2nd): "Herr Hitler stands forth as the mightiest sovereign and ruler since Napoleon, and perhaps since Charlemagne".

### DOES CZECHOSLOVAKIA MATTER TO US ?

The reader who has not had the leisure or the opportunity to study international relations, and the balance of forces in the world, may ask whether all this really matters to us. One way of answering that is to say that at least Mr. Chamberlain and the Government think it does, for they agree that the new accession of economic and military strength to Germany makes it necessary for us to build up our armed forces and our defence organisation more rapidly and to greater strength than ever before contemplated. Why ? Because we have something to defend and because they anticipate that sooner or later we shall be called upon to defend it !

Against whom ? Look round the world to find your answer. Is it America ? Certainly not. Russia ? The Russians have all the territory and all the materials they need within their present frontiers, and, whatever one may think of their internal affairs, they have been, and remain, loyal members of the League and adherents to the system of international justice.

The threat against which we are arming can only be envisaged as coming from Germany and the powers associated with her, and it is this potential enemy of Britain that has been enormously strengthened by the terms of the "Peace". If there is any meaning at all in the declarations of our need for greater armed strength, then what we have achieved is not peace but an armed truce for a temporary period with a prospect of war under conditions less favourable to us in the future.

If the Czechoslovakian settlement adds to the strength



and influence of our potential enemies, then it is a matter of grave concern to us, and cannot be dismissed as if it were a mere local squabble of no significance.

### WHAT HAVE WE TO DEFEND ?

There are really two things which many people in this country would think worth defending against the encroachment of totalitarian tyranny. First, there are the intangible things—Peace, Freedom, Democracy and cultural opportunity. If these were directly menaced in this country, we would not hesitate to defend them. Many of us believe that the whole way of life that is implied by these things can be defended here only if they are defended elsewhere. And, secondly, it is no accident that the action necessary to defend freedom and democracy in the world to-day corresponds exactly to the action needed to defend the British Empire.

Are these things worth defending ? Remember that the whole economic life of this country has been built up upon an Empire basis. Without the British Empire and the position it gives us as a great trading and maritime power, the large population of these small islands could not be maintained. We shall be forced by economic necessity, if from no higher motives, to fight for our rightful place in the world should it ever be menaced.

But if, in the meantime, we have stood aside and allowed our natural allies and friends among the peace-loving nations of the world to fall under the domination of the aggressors, we shall discover too late that, in a world of modern armaments, the British Empire cannot be defended in isolation.

### THE ECONOMIC CONSEQUENCES OF THE PEACE

We have seen that the Czechoslovakian issue was clearly related to matters which are of vital importance to Britain. We must now examine the consequences which flow from the settlement, in order that we may clearly appreciate the changes that have taken and will take place in the balance of forces in Europe and the world.

## (a) FOR CZECHOSLOVAKIA

The new boundaries of Czechoslovakia have been drawn without any reference whatsoever to economic considerations. The Munich agreement represents a complete capitulation to the racial principles of Nazi philosophy.

“The new line inflicts grievous injury upon the industrial scheme of the Czechoslovak State as originally constituted.”<sup>1</sup>

The balance of economic activity in Czechoslovakia was steadily poised between industrial production and food and forestry production. According to the 1930 census the employed population was almost evenly divided as follows :

Number engaged in Agriculture, Fishery and Forestry 5,101,937  
 Number engaged in Industry . . . . . 5,146,937

It would take up too much space to go into all the details of the economic difficulties that have been created for Czechoslovakia, but an impression of the drastic and ruinous unbalancing of the Czech economy is conveyed by the following estimate formulated in the *Economist* of October 8th :

“Many of her best industries will be lost to Germany and Poland. The extent of these losses can be estimated from the following figures, which are based on the official Census of

	Workers in German and Polish Areas	Proportion of Total Per Cent
Mines, etc. . . . .	58,240	48·1
Glass . . . . .	39,226	61·8
Metals . . . . .	93,783	24·0
Chemicals . . . . .	14,373	34·6
Textiles . . . . .	190,660	52·1
Paper . . . . .	17,273	41·8
Woodwork . . . . .	43,058	23·4
Musical instruments . . . . .	5,992	79·0
Toys . . . . .	1,911	68·1
Foodstuffs . . . . .	62,103	25·4
Clothes and shoes . . . . .	70,943	24·2
Other industries . . . . .	164,959	27·6
<b>Total Industry . . . . .</b>	<b>762,521</b>	<b>33·3</b>

<sup>1</sup> *The Times* leading article, October 14th, 1938.

1930. . . . The figures show the number of workers in these districts in the different industries and the proportion they bore to the total for the whole Republic. It must be emphasised that the districts to be ceded are almost certainly larger than those here included, and the proportions are therefore minima.

"These are appalling losses to a country that is largely dependent upon its industry."

The transfer of territory tears away a large proportion of the industrial population and the industries in which they worked. The economic relations between the central agricultural plains of Bohemia and Moravia and the industrial districts will not be able to be maintained. Apart even from the fact that the exchange of goods would now have to surmount the new national frontier, there is the fact that the State-controlled economy of Germany will almost certainly distort the orientation of trade.

The frontier cuts through economic zones which were in the closest association. The lignite area of North Bohemia not only formed a raw-material basis for the industry located there, but supplied coal to the industrial regions east of Prague.

Semi-finished goods produced in the transferred areas were formerly finished by the industries in the interior. These economic life-lines are cut.

Electric power supplied to Prague came from the transferred areas; the industries of the interior must now be adapted to the fuel still remaining in the country, and this will have to be transported considerable distances, with the consequent increase in costs and prices, which may have incalculable effects upon the nation's foreign trade.

The heavy chemical industry which was built up on a lignite basis in the transferred areas will have to be built up afresh elsewhere if the light chemical industry of the interior is to continue its existence.

The printing and allied industries, including newspaper production, obtained their paper from works built up on the basis of the forests on the old Czech-German frontiers. All the industries exploiting timber must either move to the

east or incur heavy transport charges.

In what remains of the textile industry the contact between weaving mills, spinning mills and finishing works is broken by the new frontier.

The artificial-silk industry is partly cut off from its raw-material base (cellulose); what is left of it in the east of Czechoslovakia is not adequately equipped and will have to be fundamentally redeveloped.

As a result of this economic disruption, the new Czechoslovakia will be unable to survive as an independent State, unless substantial aid for capital reconstruction is forthcoming from Britain and France. In the absence of foreign aid, Czechoslovakia will become an economic and political vassal of the greater Germany.

#### (b) FOR GERMANY

What Czechoslovakia loses in raw-material resources and in industrial plant and equipment, Germany gains. The ceded areas are rich in mineral and other economic resources of immense value for war preparation. This is important. But she also gets a new population of the most highly skilled workmen in Europe. The view has been blandly expressed that all that Germany will gain is a "depressed area". It is quite true that under the "free" economy of Czechoslovakia there was a high percentage of unemployment in the areas now ceded to Germany. But there will be no unemployment in the *controlled* economy into which the new population is now recruited. Germany's rigid control over all the factors in production — wages, hours of labour, the direction of investment — has been made possible by totalitarian methods which have involved drastic curtailment of the liberty of the subject.

The whole German economy has been, and is now, operated with a view to the maximum activity in war preparations — both military and economic. The new resources of the Sudetenland will be drawn into that system and the power of Germany correspondingly increased.

*The Danubian States.*—Prior to the Czechoslovakian crisis,

Germany was already exercising great economic influence upon the Danubian countries. She occupied the leading place in regard to both the export and the import trades of Czechoslovakia, Bulgaria, Hungary, Rumania and Yugoslavia. The extension of her frontiers over the natural barrier of the Sudeten mountains and her acquisition of the predominantly industrial area of the former Czechoslovakia will increase her economic and political influence over the Danubian States still further. The vast resources of cereals, timber and petroleum of these countries will now be placed increasingly at her disposal. In this way her power as a potential aggressor in the future is again increased. It is worth remembering also in this connection that the blockade was the determining factor in the last war. Access to the resources of the Danubian States makes Germany immune from the pressure of British naval power.

#### (c) FOR BRITAIN

The industries taken over by Germany include a number which produce the same kind of goods as those which Britain sells in Overseas markets. Under the German system of foreign trade, which enables them to sell without regard to costs of production, it is within her power to use the new supplies of coal, textiles, china, etc. etc., to undermine British trade and inflict serious economic losses upon us. The situation that may arise would be analogous to what happened some time ago as a result of the exports of cheap Russian timber by the Russian State export organisation. In that connection we remember the complaints of Canada. Soon *we* may be in the position that the depressed areas of Britain that are dependent upon coal and textile exports will be further menaced by the competition of products coming from Sudeten industries now acquired by Germany without capital cost and without compensation to the previous owners. If Germany sees fit to wage *economic* war on us, she is enormously strengthened to do so by the new industrial areas which she now controls.

## THE POLITICAL CONSEQUENCES OF THE PEACE

Czechoslovakia relied for her protection upon her Treaty with France and Russia and upon the obligation undertaken by the League of Nations to protect the frontiers of member States against unprovoked aggression. It is no exaggeration to say that she has been regarded as a test case by all the other small powers in Europe. She was encouraged to rely upon the big powers for support and framed her foreign policy, as well as her internal affairs, upon that basis. Her desertion by the big powers at the moment of crisis will be a signal to other powers not to rely upon similar undertakings. The League system will be further disintegrated. It is not unlikely, also, that Russia, after having been studiously ignored in the negotiations about Czechoslovakia, will be disinclined to take any further interest in the Franco-Soviet pact. France will no longer be able to rely upon her treaty system with the States of Eastern Europe. She will find herself virtually isolated on the Continent, and her weakness will represent a constant invitation to the political domination of Germany, which will grow in might as the possible combination against her disintegrates.

## WHAT WOULD YOU HAVE DONE ?

The question will be asked whether I should have been prepared to go to war in defence of Czechoslovakia. In the first place, it was not merely the territorial integrity of Czechoslovakia that was at stake but the future peace of the world and the security of the British Empire. But on the main question I stand with Mr. Chamberlain himself :

“ If I were convinced that any nation had made up its mind to dominate the world by fear of its force I should feel that it must be resisted.”

These are the words used by Mr. Chamberlain in his broadcast of September 27th, after his return from Godesberg.

The difference is that I was convinced that this is precisely

what we were faced with long before we had succumbed to Hitler's intimidation by making the Franco-British proposals of September 19th. Mr. Chamberlain was convinced only after we had given away everything that was worth fighting for.

The Franco-British plan surrendered the natural mountain barrier to German aggression in the whole Danubian basin. It surrendered the Czech frontier line of defences which had cost about £100 millions to build. (Incidentally it was built and paid for by the Czechs, on the assumption that their allies and the League powers would support them.) The Godesberg proposals of Herr Hitler differed only in detail and in respect of the time-table for German occupation. The full brutal, aggressive intention of Germany was, however, then openly expressed.

From that date onwards everything that happened belongs to the realms of hysteria and unbelievable fantasy. We had given Hitler all he demanded. We prepared to fight him on the question of the date when he should get it. The invitation to the conference at Munich was greeted with relief. The nation felt that at long last Britain, France and Russia would reverse the process of retreat before the vulgar threats of a bully. In fact the Munich conference did not include either Czechoslovakia or Russia and merely acted as an Executive for the carrying out, under international approval, of the Godesberg programme that had been rejected a week earlier as intolerable. And this was greeted as a victory.

If there is any doubt as to whether anything of importance was gained at Munich, my point can be proved by a comparison of the maps. The difference between the Godesberg map prepared by Hitler and the map of what has actually been carried out under the Munich agreement is infinitesimal :

"... and where it does (differ), differs more often to Germany's than to Czechoslovakia's advantage."<sup>1</sup>

It might be said that at least sufficient time was gained to allow the Jews and the Social Democrats to escape from the areas to be ceded. Hundreds of thousands of Germans did escape—fleeing from the blessings of German rule. There are

<sup>1</sup> *Economist*, October 15th.

thousands more, however, who have been trapped because they did not know, nor did anyone else, where the final frontier was to be drawn. Moreover, Germany is actually demanding the return of those who did escape. And an idea of what is in store for them can be gained, not only from the vile brutalities which the Nazis are known to have been guilty of in Germany and in Austria, but by the open declaration of Herr Henlein : " We shall imprison them until they turn black ".

These are the results of months of weak vacillation. We gave away the substance voluntarily and then spent tens of millions mobilising our fleet and preparing for war over what has turned out to be a mere shadow. When I was asked in the House of Commons to vote in approval of all that, I refused. I would refuse again, for I believe with Mr. Duff Cooper that a member of Parliament has a higher duty to perform than to become a voting machine in favour of his Party, " right or wrong ". The action I have taken is in accordance with the mandate I sought from my constituency at the last election. It is not I who have to answer for a dereliction of duty.

## THE FUTURE

It is in these terms that we in this country have to envisage the future. The first thing for us to do is to make up our minds clearly and definitely whether there is anything in the world that we shall consider to be worth fighting to defend. If there is nothing, then let us disarm, and relinquish our position to the more virile powers, with dignity and sense.

Looking back on the Czechoslovakian crisis, it is clear that if we had made up our minds months beforehand, when we knew the crisis was developing, (a) that Czechoslovakia was *not* to be defended against aggression, and (b) that the frontiers would have to be re-drawn, then Czechoslovakia would certainly have negotiated a better settlement than has now resulted from the futile display of resistance which collapsed at the last minute.

But, if there *are* things which we will fight to defend, then let us be quite clear *what* they are : let us make them clear to



our potential enemies, and build up the forces of defence and attack that will enable us to sustain our case if it comes to war. By the method of clear, frank and unmistakable determination, we should stand a chance of avoiding war altogether. If we are hesitant and weak, nothing will save us.

## REARMAMENT

Let us be clear from the outset that, as a result of our foreign policy, Britain has been growing weaker instead of stronger during the period of rearmament. It will take a great deal of French and British rearmament to compensate us for the loss of Czechoslovakia as a potential ally. It is now almost certain that Hungary, as well as Czechoslovakia, has fallen irrevocably into the German orbit. The probabilities are that Poland will now adjust herself to the designs of German foreign policy. If a determined lead were given by the British Government *at once*, it might still be possible to sustain the political and economic independence of Rumania, Jugoslavia and Bulgaria. This would only be done as a result of closer relations between Britain, France and Russia and their joint determination to revive the League of Nations. By that action the balance of power in Europe could be partially restored.

Do not let us be led into any false sense of security by greater rearmament in Britain. If our foreign policy continues to lose us friends, then let us be clear that no amount of British and French rearmament will ever compensate for the loss of Russia's power on our side and the neutralisation of the smaller states of Europe. The first part of rearmament policy is, then, foreign policy. The next question that arises is whether we are to continue to drift in uncertainty regarding the vital issues already in dispute. Is Spain to be allowed to remain an open sore — kept open by German aeroplanes, ammunition and technical experts, and by Italian aeroplanes and troops? Are we prepared to say that German and Italian intervention on the side of Franco must end, or that our "non-intervention" against the supply of arms to the Spanish Government (which is their right in international law) will

also cease? Are we to continue to tolerate German and Italian intervention in the Moslem world to stir up trouble such as has now been fomented in Palestine, or shall we make it clear that we shall not hesitate to take strong action to end this technique of making war by proxy?

Unless we are prepared *now* to end the drift of British foreign policy there will be little purpose in rearmament, for we shall grow weaker through the loss of friends while we are making sacrifices to grow strong by greater expenditure on armaments.

This contradiction between our foreign policy and our rearmament policy must be clearly stated, however painful it may be to do so. Before we have any right to ask for the enormous industrial effort which rearmament will now involve at home, we must make quite certain that we are not being correspondingly weakened by unrealistic diplomacy abroad. The people of this country will never be rallied by a narrow conception of our duty in the world. To gain the whole-hearted support of a united nation, a miserly attitude, of thinking only of our own material possessions, is not enough. The call that would unite this nation is the call for peace through upholding the law, the call for a collective peace system strongly supported.

If our foreign policy were framed on these lines, then our first step in the building up of our defence system would be to re-create, as quickly as possible, the alliance of peace-loving powers in the League of Nations. The door should be held open to all comers, but a beginning could be made with Britain, France and Russia, together with the remaining League members in Europe and with the approval and support of the Empire countries and the U.S.A.

In support of such a foreign policy, any sacrifice required from our people for the building up of our armed strength would willingly be made. But in this also the sacrifices needed will be greater, if we go about the task in a half-hearted way. The speed at which we can produce armaments will be determined, not by how much money we spend but by the efficiency we display in utilising the available labour and capital re-

sources at our disposal. If we merely increase our expenditure without having regard to the efficient utilisation of our resources, the result will be a diversion of labour from the production of useful commodities to the production of armaments. The production of consumers' goods will be diminished. Prices will rise. The standard of life will fall, and we shall aggravate the poverty and malnutrition which is already undermining the physical virility of our people.

I submit that this result is not an inevitable accompaniment of rearmament. By a full utilisation of the labour power of those now unemployed, and by the elimination of the waste that now takes place because of competitive redundancy both in production and distribution, we could increase our production of armaments and of consumers' goods as well. The available labour power and capital resources of the nation should be distributed according to a plan of increased national productivity. And in this connection the reconstruction proposals in my book *The Middle Way* become more than ever relevant to the needs of our time.

There will be other opportunities of discussing in greater detail the vast changes that will have to be brought about in the whole economic life of this country if we are to win through in face of the odds that are now against us. The task will call for the highest courage and resourcefulness on the part of the Government. It will require also the willing co-operation of all branches of economic activity and all classes in the community. This unity of purpose will be evoked only by a policy which is in harmony with the democratic tradition of this country, which expresses our deep desire to preserve freedom and to cultivate peace in a system of collective security. Given that policy, vigorously pursued by a resolute Government, Britain's greatness would be restored by the unselfish patriotism of her people.



